FDIC State Profile

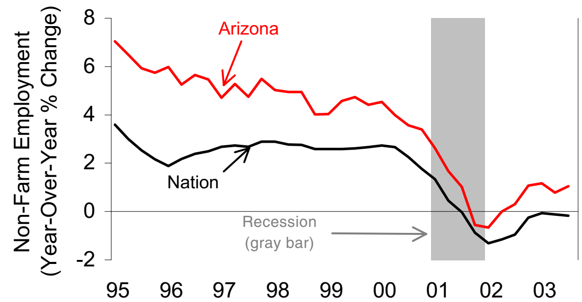
WINTER 2003

Arizona

Nonfarm employment in Arizona rebounded through the third quarter of 2003, albeit at a slower pace than earlier in the year.

- As of third quarter 2003, payroll jobs increased 0.9 percent compared to year-ago figures, in contrast to the 0.4 percent decline nationally (see Chart 1).
- Employment growth in education and health services and in construction helped to offset losses in the manufacturing and information sectors. The construction and health sectors benefited from strong Arizona population growth over the last 10 years, which, at an average annual growth of 3 percent, was double the national rate.
- Computer and electronic products manufacturing jobs declined 8.6 percent year-over-year as of third quarter 2003.
- State and local government employment growth slowed significantly to 0.2 percent during the year ending third quarter 2003, after registering 2.2 percent growth in the prior year.

Chart 1: Arizona's Employment Growth Barely Remained Positive

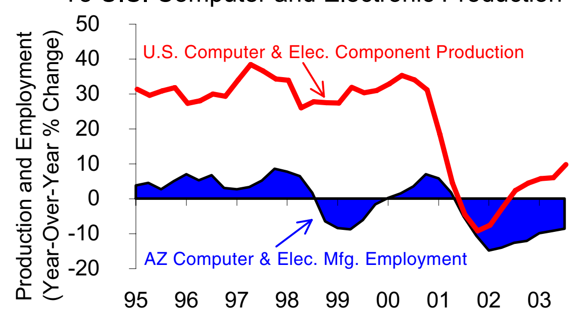


Source: Bureau of Labor Statistics and National Bureau of Economic Research

The state's high-tech and aerospace sectors were negatively affected by declining international and domestic demand for their products.

- Rapid growth in computer and electronic products production through 2000 was an important factor in the expansion of Arizona jobs in this category. However, beginning in 2001, significant declines in demand depressed Arizona's employment in high-tech manufacturing (see Chart 2).
- Although high-tech manufacturing in the Tucson metropolitan statistical area (MSA) tends to be defense-related, the recent increase in national security spending has not yet resulted in high-tech manufacturing job growth.

Chart 2: Arizona Employment Growth Closely Tied To U.S. Computer and Electronic Production

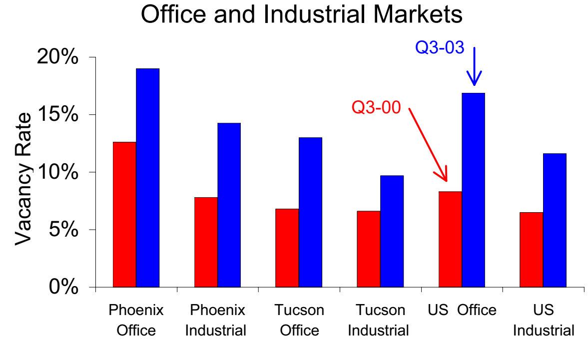


Source: Bureau of Labor Statistics, Federal Reserve Board

Office, industrial, and multifamily vacancy rates increased in both the Phoenix and Tucson MSAs.

- According to Torto Wheaton Research (TWR), office vacancy rates increased in Tucson to 13.0 percent as of third quarter 2003, up from 9.6 percent one year earlier. In addition, industrial vacancy rates in Phoenix increased to 14.3 percent in the third quarter of 2003, up from 14.0 percent one year earlier. The Phoenix and Tucson MSAs experienced increased vacancy rates over the past three years (see Chart 3).
- Low home mortgage rates and subdued job growth softened demand for apartment units. Between 2000 and second

Chart 3: Arizona's Slowing Economy Weakened Office and Industrial Markets



Source: Torto Wheaton Research

quarter 2003, TWR estimates that multifamily vacancy rates increased from 4.5 percent to 9.5 percent in Phoenix and from 6.6 percent to 9.9 percent in Tucson.

Weakening local CRE market conditions could adversely affect institutions headquartered in the Phoenix and Tucson MSAs holding CRE[1] loans.

- As of second quarter 2003, the median CRE loan-to-Tier 1 capital ratio among established community institutions[2] based in the Phoenix and Tucson MSAs was 523 percent, more than three times the median concentration reported 10 years earlier (see Chart 4). The group's median construction and development (C&D) loan-to-Tier 1 capital ratio increased more than six-fold over the past decade to 143 percent. Respectively, median CRE and C&D concentration ratios were double and triple the levels reported by MSA-based established community institutions nationwide.
- Increasing CRE vacancy rates over the past few years have only mildly affected past-due CRE loan ratios among Phoenix- and Tucson-based established community institutions (see Chart 4). Although delinquencies are far below levels of the early 1990s, additional softening could occur should market fundamentals remain weak.

Earnings among Arizona's insured institutions continued to improve through mid-year 2003.

- The median return-on-assets (ROA) ratio increased to 0.90 percent in June 2003, up from 0.78 percent in second quarter 2002, but still below the 1.05 percent national median. Despite net interest margin compression, the median ROA improved, prompted by reduced overhead ratios.
- ROA ratios were weaker among institutions less than nine years old, which accounted for 65 percent of the state's insured institutions (see Chart 5). Older insured institutions reported strong ROA ratios.

Arizona-based institutions report higher brokered deposit and noncore[3] funds dependence.

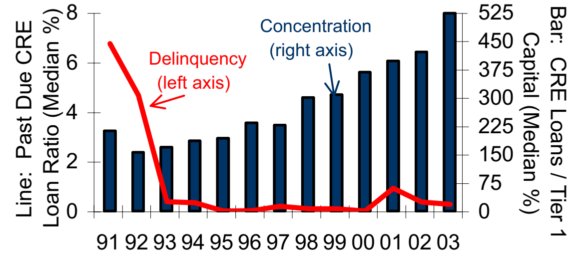
- The median noncore funds-to-total asset ratio among Arizona's insured institutions increased from 7 percent to 16 percent during the past decade.

[1] CRE loans include construction, multifamily, and nonfarm-nonresidential mortgages.

[2] Established community institutions are defined as insured institutions holding less than $1 billion in total assets and open at least three years, excluding industrial loan companies and specialty institutions.

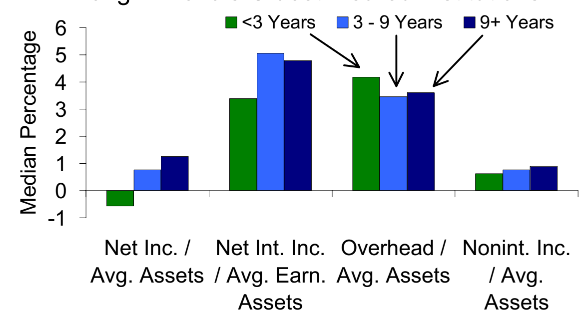
[3] Noncore funds include brokered deposits, jumbo time deposits, foreign office deposits, and other borrowed funds such as Federal funds purchased and reverse repurchase agreements.

Chart 4: Community Institutions in the Phoenix Area Reported High CRE Loan Exposures



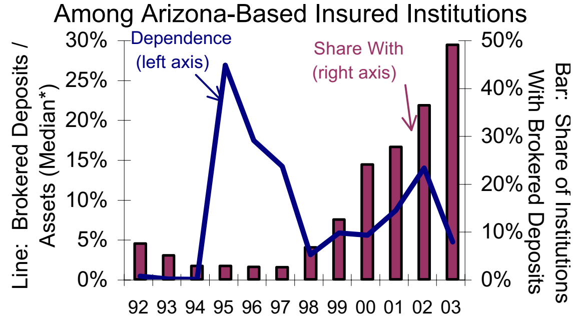
Notes: Includes insured institutions based in the Phoenix or Tucson metropolitan areas, open at least three years, with less than $1 billion in assets, and excludes specialty institutions. CRE = commercial real estate.
Source: Phoenix and Tucson Bank and Thrift Call Reports (June of each year)

Chart 5: Earnings Performance Was Strongest Among Arizona's Oldest Insured Institutions



Source: Arizona Bank and Thrift Call Reports (June 30, 2003)

Chart 6: Brokered Deposit Usage Increased Among Arizona-Based Insured Institutions



Note: *Median is only calculated on institutions holding brokered deposits.
Source: Arizona Bank and Thrift Call Reports (June of each year)

- Brokered deposits now represent an important source of funding for many institutions. The share of Arizona-based institutions using brokered funds increased to 49 percent by June 2003, up from 36 percent one year ago (see Chart 6). On a median basis, brokered deposits fund nearly 5 percent of these institutions' assets.

Arizona at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	49	44	47	50	48
Total Assets (in thousands)	53,058,367	44,358,772	70,204,058	56,747,793	51,849,983
New Institutions (# < 3 years)	15	10	14	14	15
New Institutions (# < 9 years)	32	25	25	26	25

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.76	8.98	10.13	9.68	9.62

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	0.43%	0.85%	0.89%	0.86%	0.53%
Past-Due and Nonaccrual ≥ 5%	2	2	6	1	0
ALLL/Total Loans (median %)	1.17%	1.30%	1.31%	1.22%	1.24%
ALLL/Noncurrent Loans (median multiple)	4.66	2.67	1.97	2.97	4.29
Net Loan Losses/Loans (aggregate)	3.95%	5.16%	2.29%	1.82%	2.78%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	11	7	13	11	10
Percent Unprofitable	22.45%	15.91%	27.66%	22.00%	20.83%
Return on Assets (median %)	0.90	0.78	1.13	1.04	1.03
25th Percentile	0.15	0.16	-0.36	0.26	0.27
Net Interest Margin (median %)	4.48%	4.87%	5.11%	5.55%	5.05%
Yield on Earning Assets (median)	6.04%	6.95%	8.84%	8.96%	8.00%
Cost of Funding Earning Assets (median)	1.43%	2.13%	3.78%	3.60%	2.99%
Provisions to Avg. Assets (median)	0.20%	0.26%	0.26%	0.25%	0.19%
Noninterest Income to Avg. Assets (median)	0.79%	0.88%	0.72%	0.68%	0.82%
Overhead to Avg. Assets (median)	3.72%	4.12%	4.20%	4.38%	4.11%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	82.40%	81.16%	84.11%	80.47%	71.88%
Loans to Assets (median %)	68.23%	70.65%	69.31%	71.40%	62.61%
Brokered Deposits (# of institutions)	24	16	13	12	6
Bro. Deps./Assets (median for above inst.)	4.70%	13.98%	8.61%	5.53%	5.82%
Noncore Funding to Assets (median)	16.14%	17.10%	17.86%	15.94%	10.77%
Core Funding to Assets (median)	68.60%	65.78%	66.16%	72.52%	75.16%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	26	19	20	22	23
National	16	16	17	18	15
State Member	3	6	6	6	7
S&L	0	0	0	0	0
Savings Bank	4	3	4	4	3
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Phoenix-Mesa AZ	34	48,464,438	69.39%	91.34%
Tucson AZ	5	3,324,233	10.20%	6.27%
Las Vegas NV-AZ	4	994,688	8.16%	1.87%
Yuma AZ	3	176,275	6.12%	0.33%
No MSA	2	58,677	4.08%	0.11%
Flagstaff AZ	1	40,056	2.04%	0.08%